

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 LAB-04

SIL-01 DODE-00 PM-04 H-02 L-03 PA-01 PRS-01 /089 W

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R 071440Z OCT 75

FM AMEMBASSY TEL AVIV

TO SECSTATE WASHDC 8502

C O N F I D E N T I A L TEL AVIV 6356

E.O. 11652: GDS

TAGS: EFIN, IS

SUBJECT: ISRAEL'S FOREIGN EXCHANGE RESERVES

REF: TEL AVIV 5968 AND A-156 OF 6/26/74

1. MAGNITUDE OF FOREIGN EXCHANGE RESERVES AVAILABLE TO ISRAEL HAS ALWAYS BEEN DIFFICULT TO DETERMINE. QUESTION REVOLVES AROUND DEFINITION OF OFFICIAL RESERVES, I.E., WHETHER TO INCLUDE WORKING CAPITAL HELD ABROAD BY GOI, NON-RESIDENT DEPOSITS IN ISRAELI BANKS, AND WHAT PORTION, IF ANY, OF THESE BANKS' LARGE FOREIGN CURRENCY ASSETS. GOI OFFICIALS HAVE TENDED TO MINIMIZE IMPORTANCE OF ANY FOREIGN CURRENCY HOLDINGS BEYOND FORMAL RESERVES HELD BY BANK OF ISRAEL.

2. WE HAVE NOTED, HOWEVER, THAT IN DISCUSSIONS ABOUT ISRAEL'S CREDIT WORTHINESS, BANKERS AND ECONOMISTS TAKE LARGER VIEW OF TOTAL SUPPLY OF FOREIGN CURRENCY AVAILABLE TO PAY COMMITMENTS IN FOREIGN EXCHANGE. FOR EXAMPLE, IN SPEECH IN LONDON LAST JUNE 10, BANK HAPOALIM CHAIRMAN LEVINTO SAID THAT QUOTE ABILITY TO PAY IS CONSIDERABLY LARGER THAN WHAT MIGHT BE EXPECTED FROM THE FIGURES OF THE BALANCE OF PAYMENTS

AND THE STATED FOREIGN EXCHANGE RESERVES OF THE BANK OF

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ISRAEL. THERE IS, IN FACT, LARGER SECONDARY RESERVE WHICH

FINDS EXPRESSION IN THE FOREIGN CURRENCY ASSETS OF
THE ISRAELI BANKING SYSTEM IN ISRAEL AND ABROAD. THIS
SECONDARY RESERVE
CAN PROVIDE ADEQUATE CURRENT FINANCING
OF THE INTERNATIONAL TRADE OF ISRAEL AS WELL AS THE FINANCE
OF TRANSFER PAYMENTS OF VARIOUS TYPES....THE LIQUIDITY
RESERVES OF THE STATE OF ISRAEL IN FOREIGN EXCHANGE REACH
CONSIDERABLY BEYOND ITS FORMAL RESERVES. UNQUOTE.

3. WE CAN ESTIMATE PROPORTIONS OF THIS QUOTE SECONDARY
RESERVE UNQUOTE FROM THE BOI'S BANKING STATISTICS,
VOL XIV, JUNE 1975. THIS OFFICIAL DOCUMENT STATES THAT
QUOTE TOTAL ASSETS IN FOREIGN CURRENCY HELD BY ISRAELI
COMMERCIAL BANKS UNQUOTE ON JUNE 30, 1975 AMOUNTED TO 35
BILLION POUNDS, OR NEARLY \$6 BILLION AT RATE OF EXCHANGE
ON THAT DATE. AN ISRAELI BANKER RECENTLY TOLD US THAT
QUOTE SOME 40 PERCENT OF ASSETS OF MAJOR BANKS IN ISRAEL
IS IN FOREIGN CURRENCY. UNQUOTE.

4. COMMENT: WHILE ASSETS OF BANKING INSTITUTIONS ARE
MATCHED BY LIABILITIES, MAJOR PART OF FOREIGN
CURRENCY ASSETS HELD BY BANKS IS HIGHLY LIQUID. THESE
LARGE ASSETS WOULD SEEM TO PROVIDE IMPORTANT BACKSTOP TO
FORMAL RESERVES HELD BY BANK OF ISRAEL. EVEN IF QUOTE
SECONDARY RESERVE UNQUOTE WERE DEEMED TO CONSIST ONLY OF
NON-RESIDENT DEPOSITS, SOME \$850 MILLION WOULD NOW
BE AVAILABLE IN ADDITION TO \$1.2 BILLION IN FORMAL RESERVES
REPORTED BY BANK OF ISRAEL AT END OF AUGUST.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: DATA, FOREIGN EXCHANGE HOLDINGS
Control Number: n/a
Copy: SINGLE
Draft Date: 07 OCT 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: KelleyW0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975TELAV06356
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750347-1080
From: TEL AVIV
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19751076/aaaacqhe.tel
Line Count: 90
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION NEA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 75 TEL AVIV 5968
Review Action: RELEASED, APPROVED
Review Authority: KelleyW0
Review Comment: n/a
Review Content Flags:
Review Date: 24 JUN 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <24 JUN 2003 by ShawDG>; APPROVED <13 NOV 2003 by KelleyW0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ISRAEL'S FOREIGN EXCHANGE RESERVES
TAGS: EFIN, IS
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006